



USAID
FROM THE AMERICAN PEOPLE

STRATEGIES AND ANALYSES FOR GROWTH AND ACCESS (SAGA) OPTIONS PAPER

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STRATEGIES AND ANALYSES FOR GROWTH AND ACCESS (SAGA)

OPTIONS PAPER



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1. INTRODUCTION

The U.S. Agency for International Development has for a number of years supported graduate training and research by African economists with the goal of building the capacity of African countries to undertake sound analysis of economic policy choices. For a time, this support consisted of training in the United States, but more recently it has focused on support for programs within Africa. For the past 15 years, much of this support was channeled via the Africa Economic Research Consortium (AERC), a non-profit organization established in 1988 in Nairobi, Kenya to increase the economic capacity of Africans to produce high quality, policy oriented research on key issues affecting economic development in sub-Saharan Africa.

Although AERC developed effective training programs at the Masters and PhD levels, and provided support for research within a structured setting that nurtured a growing number of well-qualified professional economists, there was concern that insufficient attention was being paid to the relevance for policy of this research activity. As a result, USAID instituted in 1995 the Equity and Growth for Economic Research (EAGER) project, followed in 2001 by the Strategies and Analyses for Growth and Access (SAGA) project, which focused on the linkages between research and policy and on the institutional structures within Africa that facilitated these linkages.

By 2006, the budgetary resources out of which this type of economic capacity building could be funded were becoming increasingly scarce. Consequently, on the occasion of the mid-term evaluation of the SAGA project, it was deemed useful for the Agency to have an options paper that would (1) develop alternatives in the area of economic capacity building, (2) consider the extent to which the activities under SAGA are relevant to regions other than sub-Saharan Africa, (3) identify what elements of the SAGA project are still needed for capacity building in Africa and what components need to be modified, (4) evaluate the potential role of USAID in this type of work relative to other donors, and (5) examine how a new activity would fit into the new strategic objectives of STATE/USAID joint strategic planning.

The next section examines the recent history and current situation regarding the need for capacity building in economic policy analysis in sub-Saharan Africa, in particular, and the least developed countries (LDCs), in general. This is followed by a short assessment of the SAGA project in responding to these needs. Section 4 looks at what USAID should do in the future. It starts by asking why sound economic policy analysis is important and what comparative advantage the United States has over other donor countries in building capacity for this analysis. It then examines six options for supporting the building of this capacity and proposes priorities in the face of budgetary constraints.

2. RECENT HISTORY AND CURRENT SITUATION

2.1 ANALYTICAL CAPACITY IN AFRICAN ECONOMICS AT END OF 1980S

Following independence, a considerable amount of economic research was conducted in a number of African countries by both expatriate and African academic economists. Most of this research had relatively little influence on policy. Furthermore, funding for this research had decreased substantially by the mid-1970s. In addition, the capacity to undertake economic policy research declined markedly in a number of countries as a result of severe disruptions arising from inflation, economic distortions, and civil conflict.

As structural adjustment and other similar programs were initiated starting in the early 1980s, almost all the analysis for these programs was conducted by international financial institutions, such as the International Monetary Fund and the World Bank, which needed the results of this research to support the reforms being negotiated with local governments. The disparity between the resources of analysts in these financial institutions and African economists, in terms of access to the methodologies and data required to undertake this research, created a very unequal relationship. Local researchers were sometimes assisted by expatriates from the university community, but their orientation was quite academic and did not fit well with policy makers' needs.¹

2.2 AERC'S EFFORTS TO ENHANCE ECONOMIC PROFESSIONALISM

The African Economic Research Consortium (AERC) was established in 1988 to increase the economic capacity of Africans to produce high quality, policy oriented research on key issues affecting economic development in sub-Saharan Africa. "Its work is based on two premises: first, that development is more likely to occur where there is sustained sound management of the economy and, second, that such management is more likely where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research."² The major programs of the AERC include the following:

- The Research Program offers small grants to individuals from both universities and research centers to conduct research within defined thematic areas. The researchers present their proposals, draft reports, and final reports to resource persons and their peers at semi-annual thematic research workshops, which provide the opportunity for monitoring the quality of the research.
- AERC also supports Collaborative Research Projects on key policy issues, which bring together senior and junior researchers, often in collaboration with expatriate researchers.
- The Collaborative Masters Program (CMAP), in partnership with 21 universities in 17 sub-Saharan African countries, provides post-graduate training at the level of a Masters degree in economics. The Program has a common curriculum and teaching materials, and shares a joint facility for elective courses. AERC aids in curriculum development, joint enforcement of standards through annual evaluations and assessments by external examiners, and student and teacher travel. It also provides support for teaching and library facilities in the economics departments of the individual universities, and it operates the Joint Facility for Electives (JFE) in Nairobi.
- In 2002, AERC launched a pan-African Collaborative PhD Program (CPP) in economics, which is designed to expand the pool of PhD economists trained within Africa for university teaching, government service, and research centers. Currently, eight African universities are involved.
- The AERC Network includes current and former AERC researchers as well as resource persons supporting the Research Program; instructors for the CMAP and CPP elective courses; members of the Academic Boards; and students and institutions supported by AERC. The Network

¹ Charles D. Jebuni, Polycarp Musunguzi, and J. Dirck Stryker. 2004. "Ghana and Uganda: Monetary and Exchange Rate Policies", Lucie Colvin Phillips and Diery Seck, eds., *Fixing African Economies; Policy Research for Development*. Boulder: Lynne Rienner. 180.

² "AERC: Mission and Governance"

provides its members with professional information and opportunities to exchange experience and share research ideas.

AERC is generally considered to be a uniquely successful organization for building capacity in the economics profession of sub-Saharan Africa. The CMAP is universally acknowledged to be the highest quality advanced program in economics in Africa. The JFE is given particularly high marks by all who have been associated with it. Beneficiaries have overwhelmingly replied that the program has been instrumental in preparing them for careers in government, research centers, and the private sector. There is a general consensus that the CPP is a rigorous and relevant program, which has the potential to help fill the critical gap of PhD faculty members in economics departments and other institutions in SSA. AERC's Research Program is acknowledged to have filled an important void in knowledge concerning economic development in sub-Saharan Africa. It has had an important influence on the quality of analysis available to policy makers.

The major need is to extend AERC's activities into the smaller, poorer countries of Africa. Examples of such countries, in which USAID has an interest, include Angola, Burundi, Ethiopia, Eritrea, Guinea, Madagascar, Mali, Mozambique, Rwanda, and Zambia. This will expand their pool of professionally qualified economists and strengthen their capacity for sound decision-making. The problem with doing this is that it will draw resources away from the countries that have benefited from these activities in the past. This is being rationalized by an attempt on the part of AERC to have national universities take over much of the cost of the CMAP. Whether these universities are willing and able to do this, given their own precarious financial situation, is an open question. This implies that the donors may have to increase their contributions to these programs if the objective of extending them to cover the continent of Africa is to be achieved.

2.3 LINKING POLICY AND RESEARCH

Despite AERC's success in building capacity in the economics profession of sub-Saharan Africa, much of the research it supported was not directly linked to the needs of policy makers. Rather the goal first and foremost was to equip African economists with the methodologies and skills they needed to undertake sound economic analysis. Yet there was a substantial need to make this analysis more relevant to the needs of policy makers. Sub-Saharan Africa's limited capacity for policy analysis was, in fact, identified as a primary contributing factor to the region's inability to adjust to the economic dislocations of the 1970's. Part of the problem, it was recognized, was the absence of an effective institutional structure for linking research with policy making.

At the time, there were several types of institutions in which policy-oriented research was being undertaken, but many of these suffered from a number of deficiencies.

- **Government departments** were called upon to conduct a substantial amount of policy analysis, but often under very difficult conditions. The needs of policy makers were often very pressing so that there was little time for reflection or in-depth research. Furthermore, salaries were low and many of those within the departments were not well qualified for the kinds of analysis they were asked to pursue.
- **Universities** undertook research, sometimes under contract to government or the donors. The quality of researchers in the universities was often high, but the demands on their time were great because of their teaching and administrative responsibilities. Furthermore, salaries were often low, jeopardizing the retention of well-qualified faculty and staff.

- **Consulting firms** conducted a range of studies, often on contract to government or the donors. Quality varied considerably. The firms were often called on to undertake studies with considerable time pressure and not much depth. Furthermore, they had no funding for assembling and maintaining data bases, or for conducting background research.
- **Expatriate researchers** were sometimes very good, have considerable field experience, and possessing a very useful international perspective. However, they were expensive and often lacked the local knowledge required for good policy research. In addition, they did not contribute to sustainability.

In contrast to these other institutions, the research centers or policy institutes that had been established before the 1990s, generally at the universities, were often sufficiently removed from immediate pressure for results and other obligations that they could undertake basic data collection, background studies, and more thorough analysis of specific policy options. This required, however, that they have funding that was not tied to producing specific short-term results.

In 1989, the World Bank, the African Development Bank and the United Nations Development Program agreed to work jointly to develop the African Capacity Building Initiative (ACBI). A Memorandum of Understanding among the donors created the African Capacity Building Foundation (ACBF) as a vehicle for implementation. With its headquarters in Harare, Zimbabwe, ACBF commenced formal operations in 1992. Its goal was to provide financial and technical support toward the building of capacity in the areas of economic policy analysis and development management.

Much of ACBF support went towards establishing and strengthening research centers that were independent of government. This core support enabled them to assemble basic data, hire well qualified staff, and undertake essential background studies in the countries in which they were located. To date, the Foundation has committed over \$250 million in grants covering some 40 countries on the continent.

Despite this support, linkages between research and policy were not very strong. USAID recognized this when it developed the Equity and Growth through Economic Research (EAGER) project, starting in 1995. This project continued USAID's support for AERC, which had been ongoing for some time, but it also focused more sharply on the relationship between research and policy. This was done by involving policy makers in the design, implementation, and oversight of research projects, most of which were carried out by teams of U.S. and African researchers, often working through the research centers. The research was overseen by national steering committees, with representation from government agencies and the private sector. The preliminary and final results of the research were presented at national and regional workshops to which policy makers were invited. Altogether over one hundred research reports and papers were produced from this project involving about a dozen African countries. Although some of the research results were produced too late to have much influence on policy, other results were key to important policy decisions.³

The mid-term evaluation of the EAGER project noted the high quality of research that was undertaken, as well as its influence on policy, but also called attention to two deficiencies. The first was the dominant role played by expatriate researchers in developing the research projects. African researchers were always involved, but they often played a secondary role. The second deficiency was the absence of institutional support for the research centers that often served as the vehicle through which the research was undertaken. Many of these centers had only recently come into existence, and they required core funding to achieve their potential.

³ For a discussion of the relevance of this research to policy, see Lucie Colvin Phillips and Diery Seck, eds., 2004. *Fixing African Economies; Policy Research for Development*. Boulder: Lynne Rienner

2.4 SAGA PROJECT

Recognizing these deficiencies, and with the ending of the EAGER project in FY2001, USAID developed the Strategies and Analyses for Growth and Access (SAGA) project as the follow-on to EAGER. SAGA continued to emphasize the goals of EAGER, but with greater emphasis on capacity building and local African ownership. More of the resources under SAGA went to African institutions than was the case under EAGER. In addition, in contrast to the EAGER project, which emphasized growth and trade with equity, relatively more attention was to be paid in the SAGA project to poverty and access by the poor to the means for reducing their poverty.

The result was a five year (2001-2006), \$16 million project with the overall goal of increasing the economic capacity of Africans to produce high quality, policy-oriented research on key issues affecting economic growth and access in Sub-Saharan Africa. In support of this goal, SAGA had four main objectives: 1) strengthening selected African economic research institutes; 2) expanding the pool of highly trained African economists; 3) conducting policy-oriented research on economic growth and access issues; and 4) facilitating linkages between U.S. and African researchers.

With these objectives in mind, SAGA was designed as an umbrella program that supported several African economic capacity building initiatives. These were complementary and mutually supportive in nature. One such initiative, led by the AERC, supported training programs for African economists at the Masters (CMAP) and PhD (CPP) levels, as well as their continued growth within a professional research environment. In order to enhance the quality of economic policy research, SAGA also supported a US-African collaborative economic research program funded through a cooperative agreement with Cornell University. Since the EAGER project had established that economic research has a greater impact on policy if it is undertaken by teams of researchers working out of well-established research centers, SAGA also supported the Secretariat for Institutional Support for Economic Research in Africa (SISERA), which provided funding and managerial assistance to African research centers. These were the three original pillars of SAGA. A fourth initiative was added as a result of the need for specialized research and training related to multilateral, regional, and bilateral trade negotiations. This initiative involved support for International Lawyers and Economists Against Poverty (ILEAP).

Under SAGA, USAID has continued supporting AERC's research and training activities through a five-year grant covering FY2001-2006, starting October 1, 2001. The grant supports Phase V of AERC's program activities, including:

- Providing continued support for core activities such as thematic research workshops, which support research by junior African researchers;
- Providing continued support for the Collaborative Research Project on Poverty, Income Distribution, and Labor Markets that involves senior African researchers;
- Providing continued support for the Collaborative Masters Program (CMAP);
- Piloting the Collaborative PhD (CPP) program;
- Providing one year of funding for the AERC Collaborative Research Project on Explaining African Economic Growth Performance.

As of February 16, 2006, the total grant, with contract modifications, was for a total of \$5,490,000. Initially, the award amount was for \$3,600,000, but it was increased to provide additional assistance on World Trade Organization (WTO) capacity building through ILEAP. As of the end of FY05, even with severe budget constraints, USAID was able to obligate \$5,190,000, nearly meeting the current program budget. It appears likely, moreover, that additional funds will be obligated in FY 2006 for further ILEAP activities.

Cornell University received a cooperative agreement, with Clark-Atlanta University a sub-recipient of the agreement. The period of the agreement was from September 28, 2001 to September 27, 2006, but it was extended through September 2007. The total estimated amount of this award was \$5,999,537, with cost-sharing by Cornell equal to an additional \$2,232,152. The goals of the cooperative agreement were to conduct high quality, policy relevant research and to increase African capacity to produce such research on key issues affecting economic growth and improved living standards in Africa. The RFA called for the implementer to have three responsibilities: (1) undertake collaborative economic research focusing on one or two areas; (2) administer a small-grants program to place US-based PhD students and faculty members in selected economic research institutes to conduct field research; and (3) provide technical assistance to strengthen the research capabilities of selected African economic research institutes. The research program was to be developed collaboratively with the Partner Institutions (participating research centers), USAID missions, policy makers, and other stakeholders. As of the end of FY 2005, only \$3,983,000 had been obligated, and it appeared likely that only an additional \$400,000 would be obligated in FY 2006.

USAID entered into a \$4,076,000 grant agreement with the International Development Research Centre (IDRC), a Canadian organization that housed SISERA. The grant agreement provided for core and research funding, technical and managerial support, strengthening the African research network, and facilitating improved dissemination of research findings. The period of performance was September 28, 2001 through September 27, 2006. SISERA's activities are currently in the process of being terminated as a result of a decision by IDRC to end its funding, though there is some possibility that SISERA may continue under the umbrella of the Council for the Development of Social Science Research in Africa (CODESRIA). As a result of this decision, USAID had obligated only \$2,383,000 as of the end of FY 2004 and no funds were obligated in FY 2005.

ILEAP has received three sub-grants of \$500,000, \$470,000, and \$500,000 from AERC, funded by USAID under SAGA, to provide funding for a series of commissioned policy papers and workshops to support and enhance African participation in international trade negotiations. The period of performance thus far has been January 1, 2004 – September 30, 2006. Another grant agreement for a similar amount is likely to be signed in the near future.

3. SUCCESS OF SAGA IN RESPONDING TO CURRENT NEEDS

3.1 CURRENT NEEDS FOR CAPACITY BUILDING IN POLICY RESEARCH

The success of SAGA and recommendations regarding any future follow-on must be evaluated in relation to current needs for capacity building in economic policy research. The continuing chronic shortage of human and institutional capacity in Africa presents a major constraint to economic growth, poverty reduction, and sustainable development. Many of the African governments lack capacity to design, implement, and monitor development policies and deliver programs. The private sector lacks an effective means for dialogue with the public sector. Civil society institutions are weak and not properly organized to contribute meaningfully to the development process. Facilities for training, research, and information technology remain grossly inadequate. Beside poor management, at the core of the obstacles to

development in Africa are insufficient transparency and lack of accountability in the public decision-making process.⁴

AERC has contributed substantially to alleviating the shortage of well-trained economists in the more advanced African countries, such as Benin, Cameroon, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal, South Africa, Tanzania, and Uganda. These are also countries in which viable research centers have been established, partly through the efforts of SISERA and ACBF, and partly with funding from governments and the donors.

The SISERA strategy of encouraging the Partner Institutions to build linkages with policy makers has had considerable success. Some research centers have been very effective in influencing policy. Often this is because of longstanding personal ties of the director and/or a few senior researchers with policy makers, or their ability to identify important emerging themes and to focus the work of the center on these themes. This has demonstrated that research conducted by established, credible researchers and institutions, with long-standing ties to policy makers, is likely to be used in policy decisions.

Many countries in Africa have not participated to the same extent in AERC's programs. Furthermore, in many of these countries, viable research centers either do not exist or have not yet attained the status and experience necessary to command the respect of policy makers. Examples of such countries, in which USAID has an interest, include Angola, Burundi, Ethiopia, Eritrea, Guinea, Madagascar, Mali, Mozambique, Rwanda, and Zambia.

Another area in which there is an urgent need is building capacity for policy analysis within the private sector and NGOs. Frequently, important decisions are made by government policy makers and negotiators without involving the private sector or civil society. Even where they are involved, they generally do not have the competence or information to undertake the kinds of analysis necessary to arrive at sound conclusions regarding their interest. This often leads to obstruction based on political power rather than thoughtful action in their self-interest. One solution, which has been used in other developing regions of the world where the private sector and civil society have a longer history of influencing decisions, is to place private sector and NGO representatives on the Boards of the research centers to ensure that these centers respond to a variety of stakeholder needs.

3.2 SUCCESS OF SAGA IN RESPONDING TO CURRENT NEEDS

SAGA has had considerable success in responding to these current needs. Its support for AERC has been an important element in the success of that institution even though its contribution has been less than 10 percent of AERC's total funding. By providing support through AERC for African research, as well as funding Cornell's, participation in the Collaborative Research Project on Poverty, Income Distribution, and Labor Markets, the SAGA project has assured both that this research is of the highest quality and that African capacity to conduct this research has been strengthened. At the same time, SAGA's funding of SISERA's support to research centers has helped to sustain these centers at a time when they have been losing ACBF support. Cornell's involvement with some of these centers under SAGA has also helped to establish them as reputable research institutions, which has enabled them to diversify their sources of funding. In addition, the funding provided by SAGA to ILEAP's activities has helped to build capacity in the important area of international trade negotiations at a time when these negotiations have assumed increasing importance.

⁴ Africa Capacity Building Foundation Web page: About ACBF, <http://www.acbf-pact.org/aboutACBF/TheFoundation.asp>.

Despite these successes, there are areas in which the SAGA project has encountered shortfalls in relation to the project's expectations. The major program management problem was related to the transfer of USAID's management of the SAGA project from the Africa Bureau to the Economic Growth office of the Economic Growth, Agriculture, and Trade (EGAT/EG) Bureau approximately two years after the project began. Funding for the project remained with the Africa Bureau. In contrast to the Africa Bureau, EGAT/EG was less interested in building capacity in Africa than in producing policy-relevant conclusions from the research that would have global applicability. Increased emphasis was placed on responding to the EGAT/EG Bureau's programmatic interests, which involved more of a focus on trade and growth than on a range of poverty issues. While this was consistent with the overall orientation of AERC, ILEAP, and SISERA, it differed from Cornell's cooperative agreement and the AERC Collaborative Research Project that USAID was funding, which were strongly focused on poverty. Nevertheless, another office in EGAT, specifically the Poverty Analysis and Social Safety Nets (PASSN) team, was very interested in Cornell's work. Their funding, which began in FY04, and their management of the Cornell portion of the cooperative agreement, beginning in FY05, has strengthened the Cornell focus on poverty reduction and building local capacity to conduct this research, though the issue of where to house any future project and what should be the substantive content of the project remains.

This separation of lines of responsibility also meant that the Africa Bureau had less ownership over the project and interest in coordination with various Agency partners. Severe cuts in EG funds in FY 04 and FY05 meant that many Missions and activities, including SAGA, experienced significant reductions. The severity of these cuts was mitigated by the Activity Manager's efforts to increase awareness of SAGA within various USAID/W offices, but reductions in obligations and the uncertainty that ensued posed difficulties for some of the project implementers, especially Cornell. For AERC, the problem was not so much that its obligations did not match its budget as the uncertainty that resulted from USAID's inability to promise continued support at the same level as in the past for AERC's next five-year phase of activities. Only the ILEAP sub-grants, which are funded through EGAT/EG, have had funding maintained at a reasonably constant level. SISERA, which is winding down its activities, was not expected to and did not receive any FY2005 obligation.

In addition to these management and budgetary problems, the mid-term evaluation identified a number of other areas for improvement beyond the current project. A few of the more important of these include:

- AERC's training activities, geared toward enlarging the existing narrow base of professional economists, should be extended to smaller, poorer countries. The donors need to provide additional support to these activities since it is unlikely that the universities in which the CMAP and CPP programs are currently operating will be able to contribute very much to these operations for some time.
- More attention needs to be paid in AERC's thematic research to topics that are important for policy in Africa. This can be done by providing training in the skills needed to identify and analyze issues of importance. Collaborative Research Projects also need to be oriented in this direction. One area identified for such research is Behind-the-Border Issues and Export Supply Response Capacity Constraints in Africa. This is perhaps the most critical policy issue facing African countries today.
- Over the longer run, regardless of what happens to SISERA, there is a need for increased donor support of an institution devoted to strengthening the African economic research centers. This is vital for maintaining a professional environment for decision-making based on sound economics and for establishing a capacity to influence those decisions with policy-relevant research. In the short-run, the emphasis should be placed on assuring the policy relevance of the research and its links with policy making in the countries in which research centers are already established. In the

longer run, it will be especially important to go beyond the better established centers to include centers in smaller, poorer countries.

- ILEAP is generally perceived as playing a vital role in helping to prepare African countries for multilateral, regional, and bilateral trade negotiations. But wider representation is needed at its workshops, including representation from the private sector and civil society in addition to government. There is also a need to incorporate the perspectives of the smaller, poorer countries of sub-Saharan Africa into the ILEAP program.
- Any follow-on to SAGA should play a more active role in promoting the use of research by policy makers. For example, the implementing institutions might support a workshop devoted to best practice techniques for ensuring that research is used by policy makers. Programmatic implications of research findings need to be explored in ways that reduce the gap between research findings and policy decisions. Research agendas should be developed in collaboration with policy makers. Consideration should be given to how policy makers can be further involved in the entire research process. Policy papers should be produced that provide policy makers with the information they need in a non-technical yet substantive way. They should also be produced in a timely manner, not long after the research has been completed.⁵
- Dissemination of research results to donors can be an important way to influence policy by ensuring that the results are incorporated into the design and implementation of programs or projects that are funded with foreign assistance. However, it is important to avoid the model in which donors identify policy makers' research needs, fund the research, and ensure that the results of the research are used through conditionality.
- The gap between researchers and policy makers needs to be bridged. One way might be to fund researchers to spend time in public service studying how government departments operate. Another approach is to forge professional links between research centers and government policy units, enabling middle-level policy analysts to consult on a regular basis with outside researchers and to farm out research projects when needed. There is also a need to develop methodologies for producing materials that present research results in a user friendly way and allow policy makers to use simulation techniques to examine alternative options.
- USAID Mission staff should be involved in the design and implementation of policy research. Implementers should maintain consistent contact with Mission staff members, updating them on the work they are doing and informing them about activities that are taking place. Mission staff members should receive copies of documents and reports that are produced for the project.

4. WHAT USAID SHOULD DO IN THE FUTURE

This analysis of what USAID should do in the future to build capacity for sound policy analysis starts by asking why that capacity building is important. It then asks what comparative advantage, if any, the United States has in building this capacity. Third, the section looks at various options concerning what elements of that capacity building USAID might support and in what combination. Finally, it makes recommendations regarding the priorities that should be attached to these different elements and explores some of the choices that have to be made.

⁵ This was less a problem for ILEAP than for the other implementers of SAGA because of ILEAP's focus on ongoing negotiations.

4.1 WHY SOUND ECONOMIC POLICY ANALYSIS IS IMPORTANT

USAID's White Paper sets out a framework for establishing five core operational goals of U.S. foreign assistance and how resources are to be allocated to achieve these goals.⁶ One of the goals is promoting transformational development in countries that have the potential for establishing good policies, stable institutions, and local capacity for effective governance. Ultimately, the objective is for these countries to be able to sustain economic and social progress without depending on foreign aid.

In no area is this more important than economic policy. This policy establishes the macroeconomic framework for economic growth, the regulatory structure to assure that markets function efficiently and fairly, and the enabling environment that encourages trade and investment. At the same time, good economic policy incorporates the interests of all parties affected in a transparent manner, which helps to assure at least minimum satisfaction with the outcome of the policy-making process. The alternative is discontent, rebellion, and the potential for civil conflict.

In order for good policy making to occur, sound analysis of the policy options must be undertaken and the results of this research must be communicated to all parties. For the process to be sustainable, the analysis must be undertaken by local researchers with access to all the available data, knowledge of the best methodologies to be employed, and a solid comprehension how the analysis fits within the local economic, social, and political setting. From the perspective of its long-term interests, building this capacity may be the best investment the U.S. can make. Even in the fragile states, building capacity for analysis and participation in the policy-making process is an important element in supporting stabilization, managing post-conflict reconstruction, and strengthening the institutions required for transition to transformational development.

4.2 USAID'S COMPARATIVE ADVANTAGE IN ECONOMIC POLICY

One of the reasons why USAID assistance is desirable in building capacity in developing countries for sound economic policy analysis is the comparative advantage that the United States has in this area. This is derived from at least three fundamental factors: expertise in economic policy research, experience in applying this research to policy decisions, and past history of bringing the private sector and civil society into the decision-making process.

The United States is the world leader in economic policy research. The universities and research centers in the US have since the Second World War been the leading innovators in such areas as trade policy, macroeconomics, econometrics, agricultural economics, industrial economics, finance, tax policy, regulatory policy, labor economics, poverty analysis, and economic development – whether measured in terms of articles published in prestigious journals, recipients of the Nobel Prize in economics, economists participating in public service, or other indicators. In the search for solutions to the problems of the developing countries, it is important that this accumulated knowledge be brought to bear.

The United States also has extensive experience in relating research to economic policy making. Organizations engaged in this include the Brookings Institution, the Center for Economic and Policy Research, the Center for Global Development, the Heritage Foundation, the Institute for International Economics, the Institute for Social and Economic Research and Policy (Columbia University), and the

⁶ Office of Policy Planning, Bureau for Policy and Program Coordination, U.S. Agency for International Development, 2004. "U.S. Foreign Aid – Meeting the Challenges of the Twenty-first Century". January.

Rand Corporation. These organizations not only conduct research and disseminate the results through publication, workshops, and conferences, but also their leaders actively promote the use of research by policy makers.

Finally, the United States is a leader in involving the private sector and civil society in the policy-making process. One of the major constraints today on the formulation of good policy in Africa is the absence of effective representation in decision-making by those who are most affected. This is an important element in promoting democracy and governance, to which USAID is strongly committed. Enhancing this representation and building the capacity of these representatives to understand the major issues is an area in which the US has a long history, as demonstrated by testimony before Congress, publication in the media, participation on talk shows, advertising, and other indicators.

4.3 OPTIONS FOR SUPPORTING SOUND ECONOMIC POLICY ANALYSIS

There are a number of different options that USAID should consider regarding its support for sound economic policy analysis. These include (1) doing nothing, (2) investing in economics education at the Masters and PhD levels, (3) providing institutional support for research centers, (4) investing directly in research, (5) building capacity for trade negotiations, and (6) a combination of Options 2 through 5 with an emphasis on increasing the utilization of research in policy making and on including the private sector and civil society in the research-policy nexus.

4.3.1 DOING NOTHING

One option is to do nothing. This has the advantage of conserving resources, which may be critical given recent budgetary pressures, but it also has a number of disadvantages. First, it fails to make use of the United States' comparative advantage in economics, linking policy and research, and bringing the private sector and civil society into the policy-making process, all of which could contribute to the spread of democracy and governance as these relate to economic policy making. Second, doing nothing is a bad investment. Sound economic policy contributes a great deal to economic growth and poverty reduction, which in the long run are fundamental to transformational development. Third, even in fragile states, which may have less potential for rapid economic growth, lack of capacity for good governance and sound economic policy decisions may have a very high cost in terms of discontent and civil conflict. Fourth, failure to build local capacity for good economic policy results in continued dependence on outside technical assistance, which is expensive and inconsistent with the objective of sustainable, transformational development. Finally, if USAID is not involved with building capacity for sound economic policy analysis, it will renounce its potential influence on how that capacity building will occur and resulting analysis will be conducted.

4.3.2 OPTION 2: ECONOMICS EDUCATION AT THE MASTERS AND PHD LEVELS

Economics education at the Masters and PhD levels is the cornerstone of sound economic policy analysis. Without this basic education, the analysis is likely to be seriously flawed. At present, higher level education in Africa is severely handicapped. University resources are stretched very thin. High quality faculty members are burdened with heavy teaching loads and low salaries. The temptation to supplement these salaries with outside consulting work is very great. This takes time away from students, who then find it even more difficult to get a good education. Adding well-qualified faculty has been a slow process because standards in economics at many Africa universities are not very high and training economists abroad is expensive. In addition, the demand for well-trained economists in research centers, regional

organizations, and elsewhere is great, and this has resulted in the universities losing some of their best people.

The brightest spot in this picture is AERC's CMAP and CPP programs. These have established a high standard of curriculum development and oversight by outside reviewers. They have also allowed students and faculty to interact with each other and to learn of experience in other countries. When this initial training is followed by participation in AERC's thematic research program and then in its Collaborative Research Projects, the result is an expanding corps of well qualified economists to fill university needs as well as those of the research centers and other organizations.

In order to expand the reach of these programs to countries that have not participated in them extensively in the past, AERC would like for an increasing share of the cost and management of the programs to be covered by the participating universities. The problem with this is that, in many cases, these universities are not financially in a position to take on this burden. The outlook, then, is for most of the cost of these programs to be covered by the donors.

If USAID were to focus on education alone, this would have the advantage that the AERC education model is well tested and the additional resources would be put to good use. Thus the approach has relatively low risk. Furthermore, this is also an area in which the U.S. could build on its comparative advantage in economics. However, without a separate research component similar to the Cooperative Agreement with Cornell, USAID's net contribution would be mostly financial unless it were to break from its past tradition and become actively involved in the oversight of AERC's training programs. A focus on education alone, moreover, would leave unexploited the comparative advantage that the U.S. has in linking research and policy and in involving the private sector and civil society in policy decisions.

4.3.3 OPTION 3: INSTITUTIONAL SUPPORT FOR RESEARCH CENTERS & REPRESENTATION OF PRIVATE SECTOR GROUPS IN POLICY MAKING

Much of the SAGA project has been devoted to support for research centers. Some of this support has been channeled through SISERA in the form of core funding and competitive research grants. Other support has been offered by Cornell through collaborative research projects, assistance in reviewing proposals, and a small grants program run by Clark-Atlanta University, which has placed U.S. researchers in the centers. While the net effect of this activity has been to strengthen a few of the centers, much remains to be done to reach out to other centers in the smaller, poorer countries.

It is not clear that the SISERA formula has worked as well as it might. Much of the core funding and all of the competitive research grants have gone directly into research. Relatively little has gone towards improved management and administration, which is a major need in many of the centers. SISERA's staff has been too limited to work very much in this area. It also may not have been very well qualified for management assistance, given that those most in contact with the centers have tended to be professional economists. If USAID decides to continue its support of the research centers, it is suggested that there first be an inventory of the needs of these centers in order to determine the kind of assistance that is to be offered (e.g., technical, managerial, administrative, financial) and then an assessment of what institution is best poised to provide this assistance.

In the event that SISERA does not survive as an institution, and possibly even if it does, consideration should be given to the possibility of supporting the African Capacity Building Foundation ACBF in its efforts to enhance the capacity of the research centers, especially those that are relatively disadvantaged. Although USAID assistance to ACBF in the past has not been very great, primarily because of concerns with its management, there have been substantial changes in management over the years, and it may be

time to take a fresh look. Channeling institutional support via ACBF would have the advantage that competition between SISERA and ACBF would be avoided.

An important question is how to bring the concerns of the private sector and civil society into any effort to support capacity building related to economic policy analysis. As noted earlier, these broad segments of society need to be better represented in the policy-making process. Yet their institutional capacity to support research directly is very limited. One proposal is to substantially increase representation of the private sector and civil society on the boards of directors of the research centers. This has been tried in Latin America and has worked quite well.

Pursuing this option would extend the work that has been done under SAGA through SISERA. It would build on the important finding of the SAGA Evaluation that the best way to forge the research-policy nexus is through the national research centers. It would take advantage of the U.S. comparative advantage in linking research with policy, as well as bringing the private sector and civil society into the policy-making process. Without an education and research component, however, it would not build very much on the U.S. comparative advantage in economics.

4.3.4 OPTION 4: SUPPORT FOR POLICY RELEVANT RESEARCH

Research carried out under both the SAGA and the EAGER projects has contributed substantially to the knowledge base concerning economic development in Africa. This has had a high policy payoff. For example, research on education in Madagascar and Senegal has been conducted under SAGA by Cornell University in close collaboration with a research center and the Ministry of Education in each country. In Madagascar, this research showed that the students of community schools, paid by local communities, performed as well on tests as did those of the national education system – a finding that is having an important impact on national education policy. In Senegal, the research showed what factors are important in reducing school dropout rates, which is also having a major effect on policy. USAID staff working on education in the Africa Bureau expressed their desire that this type of research continue given the horrendous challenges they face in trying to move towards universal primary school education by the year 2015, one of the Millennium Development Goals.

One question that has emerged is whether the current focus of research conducted under SAGA is most appropriate for the future. In its RFA for the Cooperative Agreement, USAID stated that proposals should focus on one or at the most two major research themes. Cornell obliged by concentrating on poverty reduction, which conformed quite well to its past research experience and its participation in AERC's Collaborative Research Project on Poverty, Income Distribution, and Labor Markets. While continuing to maintain this focus, the research has been broadened over the years to include education, health, and agriculture. It would be possible to build a research activity in a follow-on project around the nexus of poverty reduction, education, health, and agriculture, all of which are closely interrelated. This research thrust could generate support from a number of USAID offices.

Another possibility would be to focus much more on investment, trade, and economic growth. As noted earlier, AERC is developing a Collaborative Research Project on Behind-the-Border Issues and Export Supply Response Capacity Constraints in Africa, deemed by many to be the most important policy issue in Africa today. Another area of great interest is multilateral, regional, and bilateral trade negotiations, in which ILEAP has developed a considerable competence. This focus of research would appeal to other offices within USAID.

4.3.5 OPTION 5: BUILDING CAPACITY FOR TRADE NEGOTIATIONS

Although not part of the original SAGA project, support for ILEAP has been one of the most successful elements of the project. Discussion with participants and neutral observers at the World Bank, WTO, the International Trade Center (ITC), and African missions in Geneva revealed widespread approval of what ILEAP has been doing. ILEAP's work goes well beyond WTO's training programs in that it raises issues associated with the positions that might be taken by African countries in the Doha Round of WTO negotiations. ILEAP's commissioned papers and workshops have dealt extensively with these issues, and there is a general consensus that the organization has done this in a balanced way. Another advantage of ILEAP's workshops, which tend to be more concentrated than WTO's relatively broad training programs, is that the senior officials involved most in international trade negotiations have been more likely to attend.

It is clear that there is a need for capacity building related to international trade negotiations involving WTO. But there may be even more of a need for capacity building related to regional and bilateral trade negotiations. In West Africa, ECOWAS is very close to achieving a full customs union, but the capacity in the Member Countries to analyze its impact on producers, consumers, and the government budget is very limited. There is even less capacity at the regional level for analyzing important regional issues, such as how to implement the special safeguard measures for agriculture that have been approved by the ECOWAS heads of state. Similar problems face COMESA and SADC in East and Southern Africa. As far as bilateral negotiations are concerned, the most important of these are associated with the creation of an Economic Partnership Agreement between the European Union and African regional organizations such as ECOWAS, COMESA, and SADC. But there are no regional research centers where issues related to these negotiations can be studied. One proposal emanating from discussions with the Africa Group in Geneva is to establish a regional institute in East Africa that would focus on trade and bring academics and practitioners together to come up with materials that would be useful to African negotiators. This proposal could apply equally well to other parts of the continent.

Building capacity for trade negotiations by supporting ILEAP has a high priority given the almost unanimous support encountered during the evaluation. However, any further funding should be contingent upon:

- Expanding ILEAP's reach to include greater representation from the smaller, poorer countries and their particular interests in multilateral, regional, and bilateral trade negotiations.
- Greater focus on regional trade negotiations and bilateral negotiations such as those with the EU.
- Augmenting the staff of ILEAP and setting up a management structure that will enable it to carry out an expanded agenda.
- Bringing representatives of the private sector and civil society into trade discussions.

4.3.6 OPTION 6: COMBINATION APPROACH

A combination of Options 2, 3, 4, and 5 would be optimal if there were no serious funding constraints. This would take advantage of the United State's comparative advantage in economic policy research, experience in applying this research to policy decisions, and past history of bringing the private sector and civil society into the decision-making process. Even in this case, however, there should be a number of changes to the program as suggested above. These would involve:

- Placing a strong emphasis on enhancing the research-policy nexus. AERC readily admits that this will occur most effectively by working with the national research centers. This would

involve USAID support for an organization such as ACBF encouraging research centers (1) to establish ongoing ties with the policy-making community, (2) to bring policy makers at an early stage into the process of identifying and preparing research projects, and (3) to assure the dissemination of research results to policy makers in a clear and timely manner.

- Review of areas for concentration of research activity in light of the most pressing issues today for Africa. Most African countries have a strong need for the results of research focused on the most important policy issues they face. These include supply-side constraints on participation in the global economy; mechanisms for promoting regional integration, taking into account the experience of successful existing arrangements; negotiating positions to be taken for EPAs and WTO; impact of policies related to education, health, agricultural, and economic growth on poverty reduction; and strategies for improving democracy and governance and avoiding civil conflict.
- Expand AERC and ILEAP activities to cover more of the least developed countries (LDCs) of Africa. AERC and ILEAP already have developed successful models for enhancing the quality of training in professional economics and trade negotiations. But application of these models is too focused on a few of the more advanced African countries. These models need to be extended to include more of the smaller, poorer countries, which do not always share the same perspective. As an example, as net food importers, they may be less interested than agricultural exporters in decreasing food production subsidies in the industrial countries.
- Find ways of involving representatives of the private sector and civil society more in economic policy analysis. This is important for improved transparency and governance. Without an understanding of the consequences of policy decisions for their stakeholders, these representatives are likely to resort to obstruction of policy on the political level, or worse, to exhorting their supporters to civil conflict. A first step might be to appoint a significant number of these representatives to the boards of directors of the research centers. Another alternative might be to offer direct support to private sector associations and NGOs to conduct their own research.
- Focus institutional support for research centers more on management and administration, as well as technical areas, in accordance with a needs assessment to be carried out at the beginning of the program, and review the institutional structure that might best respond to these needs.
- Devote more attention in ILEAP to regional and bilateral trade negotiations, and expand staff and management structure accordingly.

4.4 DETERMINING PRIORITIES UNDER BUDGET CONSTRAINTS

In choosing realistic options for the future, it is important to develop priorities given funding and other constraints. The USAID budget for the Africa Bureau and for EGAT has been declining over the past few years, and that for Economic Growth has been decreasing even more rapidly. One result was decreased obligations for the SAGA project in FY 04 and FY 05. Prospects for the future do not look much brighter.

A second constraint is that the SAGA project is managed out of EGAT but its funding until recently came from the Africa Bureau. While there is considerable interest within the Africa Bureau regarding the SAGA project, it is not clear whether this will involve any future funding. EGAT also has an interest, but only part of this is related to poverty reduction research, which has been funded over the past two fiscal years by the PASSN office. Other funding has gone to support the activities of ILEAP, which were not a

major priority, at least until recently, of the SAGA project. The other issue related to this split between EGAT and the Africa Bureau is that this EGAT is understandably interested in a global perspective, but SAGA's activities have thus far been concentrated on Africa.

4.4.1 PRIORITIZATION

If one has to prioritize because of funding constraints, support for the research centers and the work of ILEAP should be given the greatest priority. Without viable research centers in most of the African countries of interest to USAID, research there is likely either to be undertaken in a vacuum in relation to policy making or to be relatively superficial and short-term in nature, as is the case with the consulting firms. Building the institutional structures, data bases, background studies, and human capacity for sound economic analysis closely linked with the needs of policy makers should be the first priority of USAID.

Second in importance is the need for capacity building related to multilateral, regional, and bilateral trade negotiations. The support required does not have a very high cost, and it contributes much to the African countries' understanding of these key issues that affect them. The relevance of ILEAP to policy making is already evident. What is needed here is expansion of ILEAP's capacity to undertake the additional work outlined above.

Of third priority is funding of collaborative research by teams of African and U.S. researchers. This has already led to important findings that are influencing policy. It also has been important in helping African researchers learn new methodologies and mature as professional economists. And it builds on the United States' comparative advantage in economics.

Although the thematic research and training activities of AERC are fundamental to building the economics profession in Africa, there are a number of other donors that are supporting AERC in this area. Furthermore, the US comparative advantage here is less pronounced than in the other areas given higher priority. USAID would not be abandoning AERC, since it would still fund the Collaborative Research Projects as part of its funding of collaborative research by teams of African and U.S. researchers.

Finally, it is important to recognize the synergies involved in funding as many components as possible. Support for research centers works best when it is accompanied by collaborative research. Dissemination of research results through ILEAP's workshops is best accomplished in conjunction with support for linkages between research and policy.

4.4.2 LOCATION OF A FOLLOW-ON PROJECT

There remains the question of where to house a follow-on project -- in EGAT or the Africa Bureau. This will largely depend on the determination of the research agenda and how this supports the work of each Bureau. It also depends on the extent to which the activities of the project are confined to Africa. Although SAGA's work has been focused on sub-Saharan Africa, much of it applies to other LDCs. In fact, some of the lessons learned from SAGA and its implementers might easily be passed on to LDCs in other parts of the world.

Typically, what the least developed countries lack most in all areas of the world is capacity for making policy decisions and their subsequent implementation. This is demonstrated, for example, by the approach taken by a number of multilateral agencies in the Integrated Framework for Trade Related Technical Assistance for the Least Developed Countries (IF). The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy.⁷

⁷ The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank, and the WTO.

It focuses to a very large extent on capacity building through technical assistance and training. Much of the research agenda outlined above for Africa would apply very well to the IF process in other LDCs.

Another example is the curriculum and teaching methods developed by AERC for its CMAP and CPP programs, which could with some modification be transferred to other LDCs outside of Africa. Many of the resource persons used by AERC, in fact, have most of their experience in other regions of the world. These persons could assist in applying the lessons of AERC to non-African countries. This might call for some curriculum modification, but it is important to understand that the general principles under which AERC operates are applicable anywhere. These include the introduction of sound methodology, oversight by internationally established researchers, frequent peer review of research papers, and setting of common performance standards. Furthermore, most of the curriculum is not highly specific to Africa, so modifications would not have to be very substantial.

The comparative advantage of AERC's training and research programs in Africa has to do with the generation of significant economies of scale at the regional level. This means that each country does not have to develop its own curriculum, hire its own resource persons, and establish its own performance standards. By pooling resources, the regional organization is able to achieve much more at lower cost. Once the initial investment has been made, the marginal cost of extending this investment to other least developed countries will not be very high. In other regions, with the possible exception of Central Asia, the LDCs tend to be less numerous and more dispersed among better off countries than in Africa. Thus the creation of a regional organization to duplicate AERC is probably not warranted. But the marginal cost of transferring curriculum, with some modification, and the general teaching and research principles applied by AERC to national universities in other regions would not be very high. In effect, under this model, Africa would become the testing ground for interventions that have much wider application among the least developed countries of the world.⁸

⁸ To some extent, this is already taking place. For example, UNCTAD's Virtual Institute is currently testing teaching modules on international commodity markets in a series of workshops in Africa before making these available to other countries.